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Message Text

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PAGE 01 STATE 211832

62
ORIGIN AF-18

INFO OCT-01 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00 SPC-03

AID-20 EB-11 NSC-10 RSC-01 CIEP-02 TRSE-00 SS-20

STR-08 OMB-01 CEA-02 COME-00 SCEM-02 L-03 PA-04 PRS-01

DOTE-00 CIAE-00 INR-10 NSAE-00 XMB-07 AGR-20 SCI-06

INT-08 /158 R

DRAFTED BY AF/W:RKSHERWOOD:BA
APPROVED BY AF/W - ROBERT K. SHERWOOD
AF-RSSMITH (DRAFT)
---------- 092225
O 262051Z OCT 73
FM SECSTATE WASHDC
TO AMEMBASSY MONROVIA IMMEDIATE

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E.O. 11652: N/A
TAGS: ENRG, BGEN, PFOR
SUBJECT: LIBERIAN REFINERY PRICE NEGOTIATION
REF: MONROVIA 5771

1. GORDON HILLHOUSE, PRESIDENT OF SUN OIL INTERNATIONAL, AND DANA SMITH, VICE PRESIDENT FOR MARKETING CALLED ON DEPUTY ASSISTANT SECRETARY SMITH AND AF/W OFFICER ON OCTOBER 25. KENNETH SMITH, SUN OIL WASHINGTON REPRESENTATIVE ALSO PRESENT. DANA SMITH AND HILLHOUSE DESCRIBED LIBERIA REFINERY CORPORATION'S (LCR) PROBLEMS ALONG LINES FOLLOWING PARAGRAPH. DANA SMITH PROCEEDING MONROVIA FOR MEETINGS ON PRICE SETTING TO BEGIN TUESDAY, OCTOBER 30. IF PRICE STRUCTURE PROPOSALS OF SUN OIL ARE NOT ACCEPTED BY GOL HILLHOUSE EMPHASIZED THAT SUN OIL WOULD ATTEMPT TO BRING ABOUT LIQUIDATION OF ITS INTEREST IN LRC IN AN "ORDERLY MANNER", BECAUSE IT WOULD OTHERWISE FACE AGGRAVATION OF
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PAGE 02 STATE 211832

ALREADY UNACCEPTABLE LOSSES. HILLHOUSE LEFT A FINANCIAL

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

SUMMARY OF LRC'S OPERATION FOR 1969-73 WHICH POINTS UP LOSSES. COPY BEING FORWARDED FOR EMBASSY'S INFORMATION.

2. LRC AGREEMENT ENTERED FORCE IN 1968 GRANTING MONOPOLY ON SUPPLYING PETROLEUM PRODUCTS TO LIBERIAN MARKET. GOL RETAINED AUTHORITY TO SET PRICES FOR REFINERY PRODUCTS WHICH WOULD BE DEBATED EACH YEAR IN PRICE COMMISSION. SUN OIL OF COURSE UNDERSTOOD THAT PRICE STRUCTURE WOULD PROVIDE SUITABLE PROFIT. IMPORTANCE OF FUEL COSTS IN OTHER BUS-

INESSES SUCH AS LAMCO IN WHICH GOL HAS STOCK INTEREST PRESUMABLY INDUCED GOL TO REFUSE TO ALLOW PRICE INCREASES. GOL NEGOTIATORS ALSO ARGUE THAT INTEREST PAYMENTS TO SUN OIL FOR ITS LOANS TO LRC ARE TO BE REGARDED AS INDUCEMENTS. FINANCIAL STATEMENT SETS OUT LOSSES FOR ALL BUT 1971 WHEN SMALL NET INCOME ACHIEVED. SUN OIL, THOUGH LOSING ON ITS INVESTMENT, HAS BEEN RELUCTANT TO HAVE REAL CONFRONTATION IN PRICE STRUCTURE NEGOTIATIONS SINCE 1971 TO ALLOW TOLBERT ADMINISTRATION TO GET ITSELF WELL ESTABLISHED, HOWEVER, THE DIZZY RISE IN CRUDE OIL PRICES AND OCEAN FREIGHT RATES OF THE PAST YEAR ACCELERATES THE PROSPECTIVE LOSSES OF LRC UNLESS AN AVERAGE PRICE INCREASE OF ABOUT 13 CENTS PER GALLON FOR LRC OUTPUT IS AGREED TO BY GOL IN TALKS NEXT WEEK. THIS ABOUT DOUBLES AVERAGE PRICE OF OUTPUT. SUN OIL OFFICIALS DOUBT GOL TEAM, UNDER STEPHEN TOLBERT, WOULD AGREE TO THIS INCREASE AND THUS ANTICIPATE THEY WILL HAVE TO PROPOSE THAT THEY ARRANGE AN "ORDERLY" OR "TASTEFUL" WITHDRAWAL. THEY STRONGLY PREFER (AND EXPECT TO DO) THIS THAN TO CONTINUE TO OPERATE AT A LOSS. THEY APPEAR TO SEE NO ACCEPTABLE COMPROMISE ON LOWER PRICE THAT WOULD ALLOW THEM TO CONTINUE.

3. IN ADDITION, TWO TANKER CHARTERS ARE SCHEDULED TO ARRIVE IN NOVEMBER AND JANUARY WITH THE LAST OF CRUDE OIL SO FAR CONTRACTED FOR. REFINERY COULD BE WITHOUT CRUDE SUPPLY IF NEGOTIATIONS DO NOT SATISFY SUN OIL, WHICH IN TURN MIGHT LEAD GOL TO MAKE DRASTIC CHARGES OR TAKE DRASTIC ACTION AGAINST THE COMPANY.

4. HILLHOUSE THEN RAISED QUESTION AS TO WHAT, IF ANYTHING,
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USG MIGHT BE ABLE TO DO IF SUN OIL DECIDES TO GET OUT. COULD IT, FOR EXAMPLE, LEND THE GOL FUNDS TO PURCHASE SUN OIL SHARES WHICH THEY VALUE AT DOLS 7.5 MILLION? (SUN OIL HOLDS 60 PERCENT OF STOCK, WHILE DYNALECTRON HOLDS 40 PER-CENT. DYNALECTRON VIEWS WERE NOT REVEALED BY HILLHOUSE.) ALTERNATIVELY, HILLHOUSE NOTED, LOCAL DISTRIBUTORS LIKE TEXACO AND EXXON AND BP MIGHT BUY OUT THE REFINERY.

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5. HILLHOUSE, IN ANSWER TO A QUESTION, SAID ARBITRATION IS PROVIDED IN CONTRACT BUT ONLY WITHIN LIBERIA, AND EVIDENCED NO CONFIDENCE IN THIS AS A SOLUTION.

6. DEPUTY ASSISTANT SECRETARY SMITH POINTED OUT THAT STEPHEN TOLBERT HAS SHOWN HIMSELF TO BE A TOUGH NEGOTIATOR BUT THUS FAR NOT WILLING TO OVERPLAY HIS HAND AND SPOIL STILL-HELD IMAGE OF LIBERIA AS COUNTRY FAVORABLE TO FOREIGN PRIVATE INVESTMENT. HE THEN ASKED WHAT SPECIFICALLY SUN OIL WOULD LIKE TO HAVE USG DO, TO WHICH HILLHOUSE REPLIED THA HE HAD NO SPECIFIC REQUESTS AT THIS TIME BUT WISHED

TO INFORM THE DEPARTMENT OF THE SITUATION WITH THE IMPLI-CATIONS WHICH IT HAS FOR REAL DIFFICULTIES FOR US INVEST-MENT, FOR THE GOL, AND FOR LIBERIAN ECONOMY. HE DID NOT RPT NOT THINK AMBASSADOR MANFULL SHOULD SIGNAL STEPHEN TOLBERT PRIOR TO NEGOTIATIONS ON OCTOBER 30 THAT DEPART-MENT INFORMED AND CONCERNED WITH THE POTENTIAL TROUBLES WHICH MIGHT SURFACE. HILLHOUSE AND DANA SMITH WERE ASKED TO KEEP DEPARTMENT AND EMBASSY INFORMED. MEANWHILE WE WILL WORK OUT INFORMAL REPLY TO QUERY AS TO FINANCIAL ASSISTANCE WHICH MIGHT BE AVAILABLE TO GOL TO BUY OUT SUN OIL. FRANKLY WE KNOW OF NONE. KISSINGER

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EO Systematic Review
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